



*Sedgwick County...
working for you*

Sedgwick County/City of Wichita Economic Development Policy Update

City Council Workshop
July 24, 2012

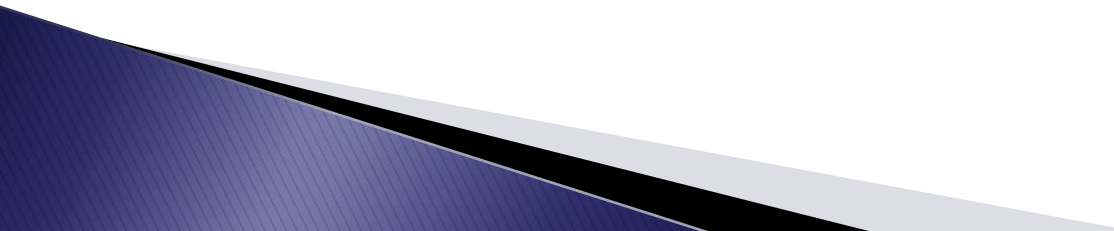
Need for Incentive Policy Update

- ▶ Current policy was enacted in 2004
 - Shortly after GWEDC was created
- ▶ Incentive practices have evolved
 - Emphasis shifting from tax relief to cash
- ▶ Policies cannot foresee all possibilities
 - Waivers are unavoidable – but policies need to provide rational basis for waivers
- ▶ Opportunity to address market gaps in incentive programs

Policy Structure



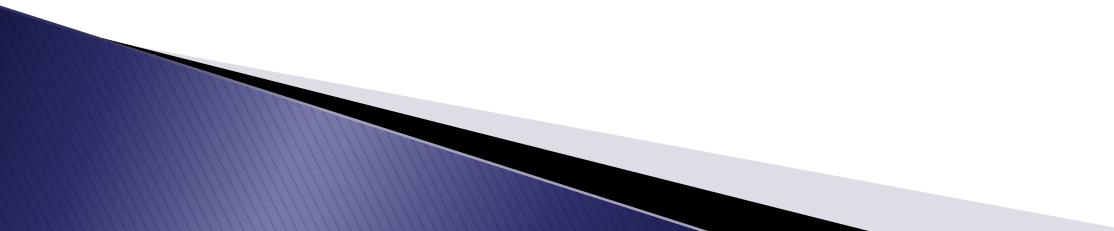
Updated Policy Format

- I. Purpose
 - II. Eligibility
 - III. Implementation
 - IV. Incentives
 - V. Compliance
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Purpose

- A. **Justification** – inherent competition between communities
 - B. **Objectives** – jobs, investment, taxes, diversification
 - C. **Description** – IRBs, abatements, forgivable loans, etc.
 - D. **Exit Strategy** – incentives subject to evaluation, economic conditions, funding
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Eligibility

- A. Business Activity List
 - B. Value-added Jobs
 - C. Wage/Salary Criteria
 - D. Return on Investment (ROI)
 - E. Additional Considerations
 - F. Legal/Financial Vetting
 - G. Not Transferable
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Implementation

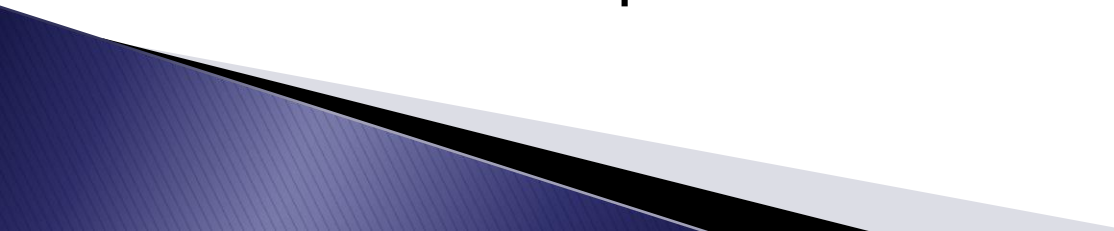
A. Incentive Agreement

- Basis for enforcement

B. Performance Criteria

- Jobs
- Investment
- Wages

Incentives

- A. Tax Abatement
 - B. Sales Tax Exemptions
 - C. Cash Incentives – forgiveness term matches job creation
 - D. Infrastructure
 - E. Other incentives – yet to be developed
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Compliance

A. Site Visits

B. Five Year Review

- Projected vs. Actuals

C. Clawbacks

- Cessation or repayment of incentive due to failure to meet commitments

D. Economic Downturn Relief

- Businesses that fail to meet commitments

Policy Highlights



Highlights: Return on Investment (ROI)

- ▶ Ratio of public benefits to public cost shall not be less than 1.3:1 for County overall and both general and debt service funds for City
- ▶ Exceptions (two or more of the following factors may be present):
 - \$50,000,000 capital investment in real property
 - Creation or retention of at least 500 jobs with wages at least 110% of average wage for all jobs in Wichita MSA minus aviation sector
 - Present value of net benefits is at least \$500,000
- ▶ Exceptions never less than 1:1 ratio

Value Added Jobs

A “Value-Added Job” produces goods and/or services that are sold predominately outside of the MSA. Importing wealth into the community through value added jobs grows the local economy. Whereas non-value-added jobs typically re-circulate wealth within the community.

Wage/Salary Criteria

- ▶ Companies must pay wages at or above the averages for its NAICS (North American Industrial Classification System) code in the Wichita MSA
- ▶ Or must be at or above the average of all the NAICS codes in the Wichita MSA minus the aviation sector jobs
- ▶ Jobs must include health care benefits, or
- ▶ If no health care benefits, then wages should be 120% of the average wage

Target Industries vs. Eligibility

▶ Eligibility

- Business activities that are eligible to apply for incentives

▶ Target Industries

- Industries that will create the most economic benefit to the community
- Used in Additional Considerations and waiver of vacancy requirement (abatement)

Target Industries

Target Industries as defined by the SSG study conducted in 2010:

- Aerospace
- Medical
- Alternative Energy
- Business/Professional Services

Eligible Business Activities

- ▶ Manufacturing
- ▶ Service Sector
- ▶ Research and Development
- ▶ Warehousing and Distribution
- ▶ Corporate Headquarters
- ▶ Transportation
- ▶ Tourism
- ▶ Medical Services
- ▶ *Speculative Industrial Buildings*

Incentives: Tax Abatement

- ▶ **Economic Development Exemption (EDX)**
 - Limited to manufacturing, research and development and warehousing and distribution
 - Building cannot be leased from unrelated lessor
- ▶ **Industrial Revenue Bonds (IRB)**
 - Available for all types of businesses included in the list of eligible business activities
 - Sales tax exemption on construction materials and furnishings/equipment also available

Tax Abatement – Existing Buildings

- ▶ Existing buildings must be vacant for two years (previous policy was three years)
- ▶ Vacancy requirement may be waived based on the following criteria:
 - Targeted Industry (based on most recent strategic/cluster analysis)
 - Determination that reuse of building is unlikely within two years

Speculative Industrial Buildings

- ▶ High Demand
 - Site consultants/prospects constantly look for large vacant industrial buildings, but Wichita lacks supply
- ▶ Purpose
 - To encourage the development of large spec buildings to entice companies to locate/grow here
- ▶ Incentive is based on building size and job creation
 - First 5 years based on building size
 - 50,000 SF = 50%; 60,000 SF = 60%; 100,000+ = 100%
 - Minimum ceiling height = 28 ft. clear
 - Second 5 years based on actual investment/job creation (but not greater than first 5 years)
 - Use of incentive sunsets at the end of 2014

Compliance/Clawbacks

▶ Clawbacks

Cessation or repayment of incentive due to failure to meet commitments

◦ **Businesses that leave Wichita**

- Required to repay last 10 years of abated taxes if they leave within 5 years after the final year of the abatement. For each year the company stays, the required amount of repayment reduces by 20% (i.e. 100% repayment year 1; 80% repayment year 2, etc.)

Compliance/Clawbacks

▶ Clawbacks

- **Failure to meet incentive obligations**
 - Economic Downturn Relief
 - Majority of Performance measures met (Actual jobs, Investment, Wages, ROI)
 - Drop in WSU current conditions index

Discussion

